

Getting some relief from your landlord

Example One: (just this week)

Initial contact from agency:

My clients have ceased work effective last week. My teams are busy, but busy cancelling ad campaigns for our clients – consuming time and resources but we will not be compensated for the work moving forward. My clients are not start ups that will go away, they are X, Y, and Z and will bounce back. My goal is to survive this temporary situation so we can capitalize on their return and get back to running my agency.

What I'm doing last week and this week:

1. Reduced headcount through layoffs.
2. Reduced pay across the board at the agency.
3. Cutting my salary and that of my remaining leadership team.
4. Cut back on benefits, internal agency services, etc.

What I'm seeking from you, my landlord:

1. Use our security deposit (we have two months with you) for the April and May rent. I will cut you a replacement security check in October (when cash flow stabilizes) equal to one month to partially fill the tank back up.
2. 50% rent for June and July with the "owed" amount to be added to December 2020 rent statement (catching you up by year end).

Name – as you see my agency is striving to get to the other side of this by not walking away from the lease but defer partial rent to later in the year and using our cash on account via the security deposit.

Final agreement:

PART 1: The agreed upon plan:

1. Touch base in July to "re-assess" go forward plan
2. April – 25% rent due, plus 100% utilities.
3. May – 25% rent due, plus 100% utilities.
4. June – 50% rent due, 100% utilities.

PART 2: Use of Current Security Deposit (2 months as of March 2020):

1. Portion to satisfy the 75% balance of April shortfall noted above.
2. Portion to satisfy 75% balance of May shortfall noted above.

The result will be a balance of rent equal to 50% of one-month deposit (from my calculation).

PART 3: June 50% that is not paid above will be tacked onto October 2020 rent.

Example Two: (during the '07-08 recession)

First, we did some research about rents in the neighborhood and talked to some brokers to get educated about space availability/location/cost.

We approached our landlord (with whom we had a great relationship) before we were in dire straits financially. We explained that our primary industry and channel (financial services/direct mail) were hit hard by the recession and we were looking for options to help us ride out the storm. We said we didn't want to break our lease or move, but if we didn't reduce costs we might not survive the crisis.

We explained that we were trying to reduce costs across the board (not just rent) and that we needed to reduce costs by XX% overall.

We presented these options and asked if he thought any of them might work, and that we would love to work something out with him:

- 1 Give back some space and reduce the base cost of the remaining space.
- 2 Reduce the base cost of the space as-is.
- 3 Move to a smaller space in the same building at a potentially lower rate.
- 4 Break the lease and move to new space in another building.

We agreed to pay the back rent when our business recovered. We thought it would be 6 months to a year before that happened (it was longer).

In the end we did option 1, gave back some space and he gave us a lower rate that lasted at least a year or possibly two years. He kept track of the debt and then later we renegotiated a new lease for another 5 years and he forgave the debt as a part of that transaction.

Advice from an agency owner's real estate rep: (jut this week)

Here are a few things we are telling our clients to be aware of based on the lessons we've learned in the last several downturns:

- 1) Some businesses will find that whatever real estate they had before the crisis will not be the real estate they need after it.
- 2) Most commercial landlords will be in denial that rates have dropped due in part to the long-term nature of leases (5 years +/-) so rate adjustments often lag the "real" economy by 12-18 months.
- 3) The smarter landlords realize it earlier and may be willing to do "blend and extend" arrangements that reduce space or monthly rental but increase the overall obligation with a longer term.
- 4) If you need to sublet excess space, the sooner the better. You do not want to put your space on the market when it's flooded with other spaces. Do it early, price it right, get it off the books.
- 5) If you own your firm's real estate and need to raise capital for operations, a "sale-leaseback" should be a great option.

6) Construction will be impacted by both labor and supply issues. It is too early to know expected delays, but there almost certainly will be some if you are in or have a planned construction project. Accordingly, you may need to hold over or do a short-term extension.

Here are a few thoughts regarding the current situation:

- 1) Outside the pending stimulus proposals and SBA loan programs, some governments are making noises that they might stop commercial evictions.
- 2) Force Majeure (“Act of God”) clauses may provide grounds for some tenants to temporarily suspend rent obligations, but many force majeure clauses are too generalized to cover this kind of event. Typically, rent will only abate if there is a fire or other casualty like a storm that results in the space no longer being usable for a period of time because of physical damage.
- 3) Business Interruption Insurance, which is called for in many commercial leases, may cover losses and pay for rent. Some even have a Civil Authority clause that could apply to government-imposed closures like those we have seen recently. The only certain remedy is to have “rent interruption insurance”. One thing is for certain; expect the insurance industry to do whatever it can to pay as little as possible.
- 4) There has been some talk in the commercial real estate world for an agreed-upon moratorium for the whole chain, in other words, a 30-60-day freeze on rents payable for tenants as well as mortgages payable for borrowers. This is unlikely to get momentum but is something floating around in some circles.

Luckily, if you are in a difficult situation and need to free up cash, there may be some hope to get rent relief.

Likewise, if you are in a good situation, a few months from now should be an ideal time to renegotiate; let's allow landlords to focus on those tenants that need immediate help first, but the fallout from this and the oil markets should result in more of a tenant's market later this year,

Understanding that everything will be addressed on a case by case basis because every tenant, landlord and lender situation is different, here are the primary and most likely solutions:

- 1) Renegotiate and extend the lease term in exchange for a lower rental rate, reduced square footage, or both.
- 2) Abate or reduce your monthly rental without an extension but pay it back at a later date.
- 3) Sublease or assign a portion of your space to a new company, almost certainly at a loss.
- 4) Negotiate a buy-out equal to a percentage of remaining rental obligation.
- 5) Default on your lease.